



Springs Road Property Limited

Annual Report
for the year ended
31 March 2003

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Management Report and Market Commentary

The previous 12 months has seen investment property as an asset class gaining favour among both institutional and private investors. Stable interest rates and the poor performance of equity markets on the back of an uncertain global political situation has driven increased demand for investment properties that enjoy long lease terms with strong tenant covenants. Despite an overall weak global economy the New Zealand economy has remained reasonably buoyant fuelled by strong consumer spending. This in turn has led to firming rental rates and a corresponding strengthening of market capitalisation rates.

Accordingly, the market value of the property has increased by 4% from the last valuation to \$4.9m.

The building is currently fully occupied. Over the past 18 months both IHC and Avon Cosmetics have vacated with their tenancies leased almost immediately to Goodman Fielder and Manukau Water respectively. The fit-out works completed by Goodman Fielder have improved the internal presentation of the building, and Manukau Water is currently contemplating similar works.

The development of new residential housing in nearby suburbs has seen commercial tenant demand strong in East Tamaki as companies take advantage of lower overheads, relative to CBD locations, whilst enjoying the proximity to an expanding labour force. This demand, combined with a shortage of available stock has caused an increase in market rent. Some new development can therefore be expected in the medium term.

Immediate certainty of cash flow is well provided for with a superior covenant offered by both Goodman Fielder and Manukau Water. The recent leasing to Manukau Water of the ground floor tenancy previously occupied by Avon is for a 6-year term at a net effective rate of \$140 per square metre. This rate exceeds existing rentals in the building.

The forthcoming renewal of Goodman Fielder (December 2004) introduces some uncertainty as they account for approximately 70% of rentals for the building. The future intention of Goodman Fielder is less clear following the takeover by the Burns Philp Group.

Although the building provides good quality second tier accommodation it is projected that provision for capital expenditure will be required to ensure that the presentation of common areas is maintained.

Report of the Directors to the Shareholders

Your Directors take pleasure in presenting their Annual Report including the financial statements of the Company for the year ended 31 March 2003.

Activities

The company is involved in the property rental business.

Dividends

A dividend of 9.4 cents per ordinary share was proposed for the year ended 31 March 2003 and was paid in April 2003.

Directors

The following persons held office as Directors during the year ended 31 March 2003.

Michael John Millar
Neil Allan Barnes
Virginia Anne Laughton

Remuneration of Directors

No Directors remuneration was paid during the year ended 31 March 2003.

Remuneration of employees

No employees remuneration exceeded \$100,000.

Auditors

Richards Woodhouse were reappointed as the Company's auditors.

Interests register

The following are transactions recorded in the Interests Register for the year:

Interested transactions

All transactions conducted by the Company with Investment Services Limited are interested transactions, as Michael Millar is a Director of, and Neil Barnes and Virginia Laughton are employees of, Investment Services Limited.

Interested transactions were:
Investment Services Limited

Payment of fees for Management, Accounting and Registry services	28,762
	<u><u>\$28,762</u></u>

Share purchases

No share transactions took place during the period.

Directors' loans

There were no loans by the Company to the Directors.

Directors' indemnity and insurance

The Company's Directors are insured against liabilities to other parties (except the company or a related party of the company) that may arise from their positions as directors. The insurance does not cover liabilities arising from criminal actions.

For, and on behalf of, the Board



CHAIRMAN



DIRECTOR

Date: 19 June 2003

Springs Road Property Limited

Statement of financial performance

For the year ended 31 March 2003

	<i>Note</i>	2003 \$	2002 \$
Income			
Rent received	2	556,009	515,233
Interest received		5,456	4,758
		561,465	519,991
Less expenditure			
Accountancy		3,660	5,252
Audit fees		1,778	2,100
Interest - Loans		164,816	176,057
- Mortgage Bonds		234,668	234,668
Custodian fees		1,500	1,500
Printing, postage and stationery		917	83
Registry fees		2,100	3,977
Management fees	3	23,002	23,000
Legal and professional fees		14,689	2,944
Insurance		1,983	1,572
Non-recoverable opex		3,817	-
Valuation fees		1,639	1,500
General expenses		1,051	2,022
		455,620	454,675
Net surplus (deficit) before taxation		105,845	65,316
Tax	4	-	-
Net surplus (deficit) before revaluation		105,845	65,316
Unrealised increase (decrease) in value of investment property	10	190,000	(25,720)
Net surplus (deficit)		\$295,845	\$39,596

Springs Road Property Limited
Statement of movements in equity
For the year ended 31 March 2003

	2003	2002
	\$	\$
Total equity at beginning of period	356,868	371,604
Net surplus (deficit) for the period	<u>295,845</u>	<u>39,596</u>
Total recognised revenue and expenses for the period	652,713	39,596
Proposed dividend	<u>54,332</u>	<u>54,332</u>
Total equity at end of period	<u><u>\$598,381</u></u>	<u><u>\$356.868</u></u>

Springs Road Property Limited
Statement of financial position
As at 31 March 2003

	<i>Note</i>	2003 \$	2002 \$
Equity		\$598,381	\$356,868
Represented by:			
Current assets			
Cash and bank balances	6	180,384	153,101
Accounts receivable		21,869	22,828
Tax refund due		3,778	1,978
		<hr/>	<hr/>
		206,031	177,907
Non-current assets			
Investment property	10	4,800,000	4,610,000
		<hr/>	<hr/>
Total assets		5,006,031	4,787,907
Less liabilities:			
Current liabilities			
Accounts payable		78,771	110,316
Bank loans – Secured		-	1,950,000
Proposed dividend		54,332	54,332
GST payable		12,547	4,391
		<hr/>	<hr/>
		145,650	2,119,039
Non-current liabilities			
Bank loans - Secured	7	1,950,000	-
Mortgage bonds - Secured	7	2,312,000	2,312,000
		<hr/>	<hr/>
		4,262,000	2,312,000
Total liabilities		4,407,650	4,431,039
Net assets		\$598,381	\$356,868



Dated: 19 June 2003



Director

Dated: 19 June 2003

Springs Road Property Limited
Statement of cash flows
As at 31 March 2003

	<i>Note</i>	2003	2002
		\$	\$
Cash flows from operating activities			
<i>Cash was provided from:</i>			
Rents received		551,588	521,174
Net interest received		5,456	4,758
Tax refund received		<u>-</u>	<u>839</u>
		557,044	526,771
<i>Cash was applied to:</i>			
Operating expenses		(73,129)	(58,746)
Interest		<u>(402,300)</u>	<u>(424,308)</u>
		<u>(475,429)</u>	<u>(483,054)</u>
Net cash flow from operating activities	8	81,615	43,717
Cash flows from financing activities			
<i>Cash was provided from</i>			
Bank loan advance		<u>1,950,000</u>	<u>-</u>
		1,950,000	-
<i>Cash was applied to</i>			
Bank loan repayment		(1,950,000)	-
Dividend payment		<u>(54,332)</u>	<u>-</u>
Net cash flows from financing activities		<u>(54,332)</u>	<u>-</u>
Total net (decrease)/increase in cash balances		27,283	43,717
Add opening cash brought forward		<u>153,101</u>	<u>109,384</u>
Closing cash carried forward		<u>\$180,384</u>	<u>\$153,101</u>

Notes to the financial statements

1 Statement of significant accounting policies

Basis of preparation

The company, Springs Road Property Limited was incorporated in December 1997 and is registered under the Companies Act 1993. The financial statements of the company have been prepared in accordance with the Financial Reporting Act 1993, and comprise statements of the following: significant accounting policies, financial performance, movements of equity, financial position, cashflows, as well as the notes to these statements contained on pages 7 to 11 of this Annual Report.

The financial statements have been prepared on the historical cost basis except that the investment property is revalued.

Investment property

The investment property is recorded at net current value, which is market value less anticipated costs of disposal. Revaluation gains or losses are included in the statement of financial performance following the net profit (loss) before revaluation. The investment property is not depreciated.

Taxation

The company adopts tax effect accounting whereby income tax is matched with operating profit after allowing for permanent differences, including depreciation using the partial liability method. The tax benefit of tax losses is recognised in the year the losses are utilised.

Financial instruments

All financial instruments of the company are recognised in the balance sheet. The company has no off-balance sheet financial instruments. Financial instruments are valued in accordance with the accounting policies disclosed in relation to each type of asset and liability.

Debtors

Debtors are stated at estimated realisable value.

Goods and services tax

The financial statements have been prepared on a GST exclusive basis except for accounts receivable and payable.

Statement of cash flows

The following are the definitions of the terms in the Statement of cash flows:

- a) Cash is considered to be cash on hand and current accounts in banks, net of bank overdrafts.
- b) Investing activities are those activities relating to the acquisition, holding and disposal of tangible assets and of investments. Investments can include securities not falling within the definition of cash.
- c) Financing activities are those activities that result in changes in the size and composition of the capital structure of the Company. This includes both equity and debt not falling within the definition of cash. Dividends paid in relation to the capital structure are included in financing activities.
- d) Operating activities include all transactions and other events that are not investing or financing activities.

Changes in accounting policies

There have been no changes in accounting policies during the year.

2 Rents received

The annual rentals for the property have been set under the leases taken over on acquisition. The four tenants have leases with the following terms:

Goodman Fielder Milling

- Eight-year term expiring 31 December 2004.
- Two rights of renewal of four years each.
- Two yearly rent reviews based on current market rentals and encompassing a ratchet clause.
- From 1 February 2002 tenant entered into lease for ground floor previously occupied by IHC on terms running concurrent with existing lease.

Manakau City Council

- Six-year term expiring 14 July 2003.
- Two rights of renewal of three years.
- Three yearly rent reviews based on current market rentals and encompassing a ratchet clause.

Avon Cosmetics

Six-year lease expiring 30 April 2003. With Manakau Water taking up this area.

3 Management fees

The Investment Manager's fee for 2001 and thereafter is based on 0.5% of the opening net capital value of the property.

Notes to the financial statements (continued)

4 Taxation

Tax will be paid on net income after allowing for permanent differences including depreciation, which are not expected to reverse in the foreseeable future.

	2003	2002
	\$	\$
Net surplus (deficit) before taxation	105,845	65,316
<i>Adjusted for:</i>		
Depreciation claim	<u>(154,785)</u>	<u>(163,674)</u>
Tax Loss for year	<u>(\$48,940)</u>	<u>(\$98,358)</u>

5 Deferred taxation

The company has an unrecognised deferred taxation liability of \$317,659 (2002: \$266,580) in respect of depreciation, and an offsetting unrecognised future tax benefit of \$228,021 (2002: \$211,871) in respect of tax losses carried forward. The carry forward of tax losses is dependent upon sufficient shareholder continuity being maintained.

6 Cash and bank balances

	2003	2002
	\$	\$
National Bank accounts	161,766	153,088
ASB Bank account	<u>18,618</u>	<u>13</u>
	<u>\$180,384</u>	<u>\$153,101</u>

Notes to the financial statements (continued)

7 Non-current liabilities

	2003 \$	2002 \$
ASB Bank	1,950,000	-
Mortgage Bonds	2,312,000	2,312,000
	<u>\$4,262,000</u>	<u>\$2,312,000</u>

ASB Bank repayment terms - at end of 2 years being December 2004 with fixed interest rate of 7.26% per annum. The ASB Bank loan is secured by a first ranking debenture over the assets of Springs Road Property Limited and a first ranking mortgage over the property.

The terms of the convertible mortgage bonds are as follows:

- Each mortgage bond has a face value of \$4,000.
- Interest paid of 12.5% per annum (pre-tax) from date of issue to 31 March 2001. Thereafter the rate is to be set by the directors at 31 March annually at either 12.5% p.a. or the 90-day bank bill rate plus 4% p.a. whichever is the lesser (pre-tax). For the year ended 31 March 2003 the rate was 9.6%
- Bonds will be redeemed on the sale of the company's property in cash to the extent that sufficient funds are then available and by conversion into ordinary shares for any balance.

Or

- Mandatory conversion to ordinary shares on the 20th anniversary of deed poll.

Or

- Conversion to ordinary shares at the option of the company at any earlier time upon giving notice to bond holders.
- Shares may only be transferred as part of a parcel of 1,000 shares and one convertible mortgage bond.

Notes to the financial statements (continued)

8 Reconciliation of net profit (deficit) to net cashflows from operating activities

	2003 \$	2002 \$
Net profit (deficit) after taxation	295,845	39,596
Decrease in property valuation	(190,000)	25,720
Capitalised additions	-	(29,720)
	<u>105,845</u>	<u>35,596</u>
<i>Add/(less) movements in working capital items</i>		
(Increase)/decrease in accounts receivable	959	(217)
Increase/(decrease) in accounts payable	(31,545)	18,282
Increase/(decrease) in net GST	8,156	(9,524)
(Increase)/decrease in tax refund due	(1,800)	(420)
	<u>(24,230)</u>	<u>8,121</u>
Net cash inflow from operating activities	<u>\$81,615</u>	<u>\$43,717</u>

9 Financial instruments

This note deals with exposures to interest rate and credit risk arising in the normal course of the company's business as follows.

Interest rate risk

The Company has long-term borrowings. The Company has minimised interest rate risk though fixing the interest rate associated with those borrowings for a two-year period up to the year 2004 at an interest rate of 7.26%. The rate of interest on convertible mortgage bonds was 9.6% for the year ended 31 March 2003.

Credit risk

The Company in the normal course of business has credit risk from accounts receivable mainly for rent and bank balances.

The Company manages credit risk through transacting only with major trading banks.

At balance date, there were no significant concentrations of credit risk.

No collateral is required in respect of financial assets.

The maximum exposure to credit risk is represented by the carrying value of each financial asset in the statement of financial position.

Notes to the financial statements (continued)

10 Investment property valuation

The investment property was valued by DTZ, registered property valuers, Auckland, on 31 March 2003 at a market value of \$4,900,000. The amount of \$4,800,000 included in the statement of financial position is calculated by taking this amount and deducting an allowance for disposal costs assessed at \$100,000.

	2003 \$	2002 \$
Valuation brought forward	4,610,000	4,606,000
Capitalised additions	-	29,720
	<u>4,610,000</u>	<u>4,635,720</u>
Current valuation	4,900,000	4,700,000
Less Disposal costs	(100,000)	(90,000)
	<u>4,800,000</u>	<u>4,610,000</u>
Change in value of property	<u>\$190,000</u>	<u>(\$25,720)</u>

11 Related party transactions

Michael Millar is both a Director of Springs Road Property Limited and Investment Services Limited the Company's manager and as such Investment Services Limited is a related party.

During the period the following transactions were entered into with Investment Services Limited.

Payment of fees for management,
Accounting and registry services

28,762

\$28,762



Auditors' Report to the Shareholders of Springs Road Property Limited

We have audited the financial statements on pages 3 to 11. The financial statements provide information about the past financial performance and cash flows of the company for the year ended 31 March 2003 and its financial position as at that date. This information is stated in accordance with the accounting policies set out on page 7.

Directors' Responsibilities

The company's directors are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the company as at 31 March 2003 and its financial performance and cash flows for the year ended on that date.

Auditors' Responsibilities

We are responsible for expressing an independent opinion on the financial statements presented by the directors and reporting our opinion to you.

Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:-

- (a) the significant estimates and judgements made by the directors in the preparation of the financial statements; and
- (b) whether the accounting policies are appropriate to the circumstances of the company, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

We have no relationship with or interests in the company other than in our capacity as auditors.

Unqualified opinion

We have obtained all the information and explanations we have required.

In our opinion:

- (a) proper accounting records have been kept by the company as far as appears from our examination of those records; and
- (b) the financial statements on pages 3 to 11:
 - (i) comply with generally accepted accounting practice in New Zealand; and
 - (ii) give a true and fair view of the financial position of the company as at 31 March 2003 and its financial performance and cash flows for the year ended on that date.

Our audit was completed on 19 June 2003 and our unqualified opinion is expressed as at that date.

Richards Woodhouse
Nelson

Directory

Nature of business	Property rental	Bankers	
Paid in capital	\$578,000	Until 31 May 2002	ASB Bank Trafalgar Street PO Box 858 Nelson
Registered office	L1 3/237 Queen Street Richmond	From 1 June 2002	National Bank of New Zealand Limited 1 Victoria Street PO Box 540 Wellington
Registered under	The Companies Act 1993	Auditors	Richards Woodhouse 9 Buxton Square PO Box 98 Nelson
Incorporation number	WN886293	Solicitors	McFadden McMeeken Phillips 187 Bridge Street PO Box 656 Nelson
I.R.D. number	69-248-896	Share Register	Investment Services L1 3/237 Queen Street PO Box 3637 Richmond Phone (03) 544 2005 Fax (03) 544 2300
Directors	Michael John Millar Neil Allan Barnes Virginia Anne Laughton	Secondary Market	Investment Services L1 3/237 Queen Street PO Box 3637 Richmond Phone (03) 544 2005 Fax (03) 544 2300
Investment Manager	Investment Services Ltd L1 3/237 Queen Street PO Box 3637 Richmond Phone (03) 544 2005 Fax (03) 544 2300		
Property Manager	The Franklin Company P O Box 3618 Shortland Street Auckland		
Accountant	Investment Services Ltd L1 3/237 Queen Street PO Box 3637 Richmond Phone (03) 544 2005 Fax (03) 544 2300		